



# United States Department of the Interior

WATER AND POWER RESOURCES SERVICE

WASHINGTON, D.C. 20240

IN REPLY  
REFER TO: 440  
832.

AUG 19 1982

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Memorandum

To: Regional Director, PN, MP, UC, LC, SW, UM, LM  
Attention: Code 440  
Acting

From: Commissioner

cc to: PS's  
PCE, willow  
PM's

Subject: Policy on Renegotiation of Existing Water Service and Repayment Contracts as a Condition for Receiving New or Additional Federal Benefits

My April 28, 1981, policy memorandum suggested that we should take advantage of each opportunity to renegotiate an existing contract when a contractor is seeking new Federal assistance in the form of water service, water storage, construction, loan funds, or other benefits. The purpose of this memorandum is to restate and emphasize those directives and to ensure that this policy is available to and understood by any of your staff who have opportunity to contact water user organizations, particularly when discussions concerning repayment obligations or water service rates are involved.

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Existing contracts, if any, must be identified in any basis of negotiation submitted for approval, loan application report, rehabilitation and betterment report, report transmittal, or other document which is precedent to initiating contract negotiations. Whenever the existing contract contains terms and conditions which are not in line with current policy and which are not now in the best interests of the United States, your recommendations to renegotiate such contract must be set forth along with the proposal for covering repayment of the new Federal investment.

For example, if a contractor is seeking a rehabilitation and betterment (R&B) loan, then an assessment should be made of the possibility to accelerate repayment of an existing repayment obligation by adjusting the payout schedule to conform to the new payment capacity determination, deleting the variable repayment formula, etc. Another example would be to seek amendment of a water service contract that has unadjustable water rates as a condition for receiving, say, a Small Reclamation Projects Act (SRPA) loan, or as a condition of additional water that may be requested.

To ensure that repayment considerations are covered in any future proposal, the project formulation team must include a Contracts and Repayment Specialist who is thoroughly familiar with my subsidy reduction and repayment acceleration goals. Such a team shall have assembled and evaluated any proposal (R&B, SRPA, etc.) before it is first identified as an item in the budget cycle. If you need assistance for repayment matters from this office, please advise.

We recognize that some contractors may refuse to renegotiate existing contracts when it is time to begin contract negotiations. Under that circumstance, the water user organization will be free to obtain the additional benefits or funds from a non-Federal source.

This policy has been in effect for all contract negotiations initiated since April 28, 1981, and affects all water service and repayment contracts unless prior to the above date, (1) a contractor had filed a notice of intent to seek new or additional loan funds; (2) a definite plan report or rehabilitation and betterment report had been finalized by regional staff; or (3) a reimbursement agreement had been executed in connection with an R&B loan proposal. As stated April 28, 1981, this policy is not applicable to contract negotiations involving funding under the Emergency Loan Act of June 26, 1948, or negotiations involving the deferment of repayment obligations undertaken pursuant to section 17(b) of the Reclamation Project Act of 1939, as amended.

This memorandum should be inserted in sections II and IX A, B, C, and D of the loose-leaf policy book on contracting sent to you on February 26, 1980.

SGD. WILLIAM C. KLOSTERMEYER

cc: Chief, Division of O&M Technical Services, E&R Center  
Chief, Division of Planning Technical Services, E&R Center (Attn: D-735)